UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Subsidiary Level and Advanced Level

ECONOMICS **9708/01**

Paper 1 Multiple Choice (Core)

October/November 2005

1 hour

Additional Materials: Multiple Choice Answer Sheet
Soft clean eraser
Soft pencil (type B or HB is recommended)

READ THESE INSTRUCTIONS FIRST

Write in soft pencil.
Do not use staples, paper clips, highlighters, glue or correction fluid.
Write your name, Centre number and candidate number on the answer sheet in the spaces provided unless this has been done for you.

There are **thirty** questions on this paper. Answer **all** questions.
For each question there are four possible answers **A**, **B**, **C** and **D**. Choose the **one** you consider correct and record your choice in **soft pencil** on the separate answer sheet.

Read the instructions on the answer sheet very carefully.

Each correct answer will score one mark. A mark will not be deducted for a wrong answer.
Any rough working should be done in this booklet.

This document consists of **12** printed pages.

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1 What is an essential feature of a pure market economy?

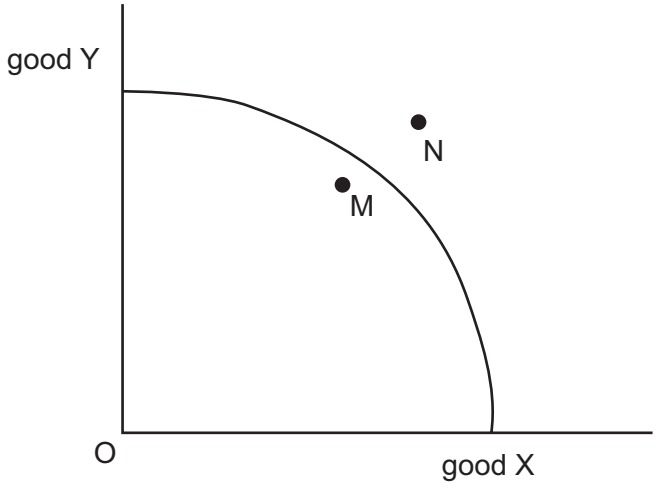
A Buyers and sellers have perfect knowledge.

B External costs are taxed.

C Prices respond to the demands of consumers.

D The government provides public goods.

2 The diagram shows a country's production possibility curve.



What could allow the economy to move from M to N?

A an increase in consumer spending

B an increase in demand for exports

C an increase in government spending on pensions

D an increase in investment

3 What is an example of the factor of production capital?

A a bank account held by a small firm to be used for future purchases

B a forest of hardwood trees ideal for furniture making

C the market value of a company's shares

D word processing software used by a writer to complete her new book

4 The workers in a factory currently earn $240 for a 40-hour week. The management offers them a choice between either a 10 per cent wage increase or an increase in the weekly wage to $260 along with a reduction from 40 to 39 hours.

Disregarding the value of leisure time, what is the opportunity cost to each worker of opting for the 39-hour week?

A $4 **B** $6 **C** $20 **D** $24

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5 The table shows the levels of demand for silver in millions of ounces for different uses between 1999 and 2001.

	1999	2000	2001
Industrial use	340.6	377.1	338.5
Photography	225.9	219.5	210.2
Jewellery and silverware	273.3	281.4	287.6
Coins and medals	27.6	29.8	27.2

What can be concluded about the different demands for silver between 1999 and 2001?

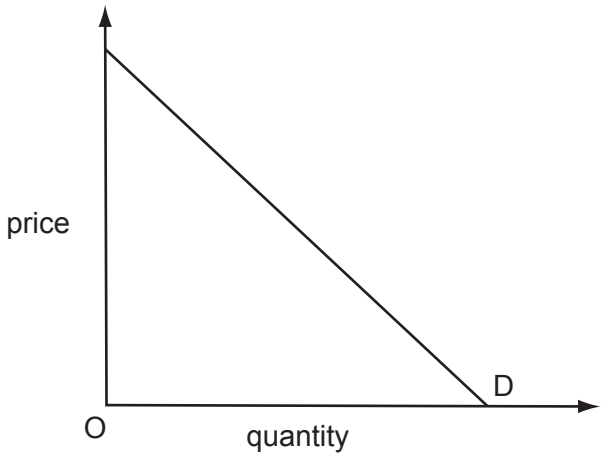
A All types of demand followed the same trend.

B Industrial use had the greatest fall in demand.

C Jewellery and silverware had a continuous increase in demand.

D Total demand increased.

6 The diagram shows the demand curve for commodity X.



Which of the following statements is correct?

A Demand is less elastic at higher prices than at lower prices.

B Consumer expenditure on the commodity always rises when price falls.

C Price elasticity of demand is different at every price.

D Price elasticity of demand equals one at every price.

7 Over the last ten years the price elasticity of demand for tea in many countries has risen.

What is the most likely cause of this change in price elasticity?

A a decrease in the incomes of consumers

B a decrease in the number of complements to tea

C an increase in the number of substitutes for tea

D an increase in the supply of tea

8 The price of Good X rises by 20%. As a result, the demand for a substitute Good Y rises by 10%.

What is the cross-elasticity of demand for Good Y with respect to Good X?

A + 2 **B** + 0.5 **C** - 0.5 **D** - 2

9 Which of the following will **not** cause a shift in the market supply curve of a commodity?

A a rise in the price of the commodity

B a rise in the price of a factor input

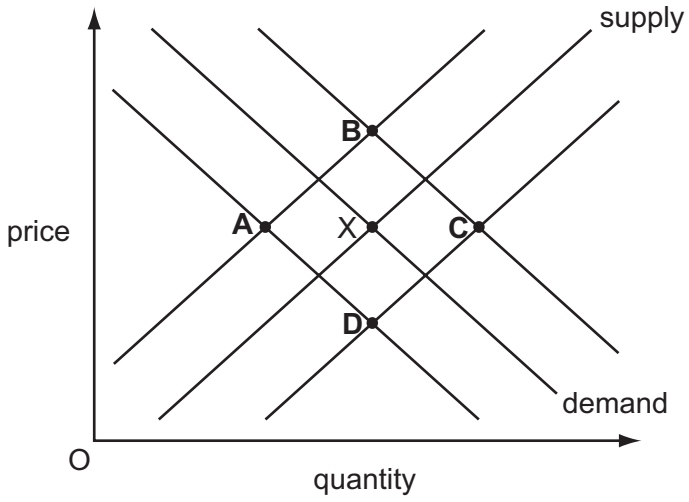
C a change in technology

D the introduction of a specific tax on the commodity

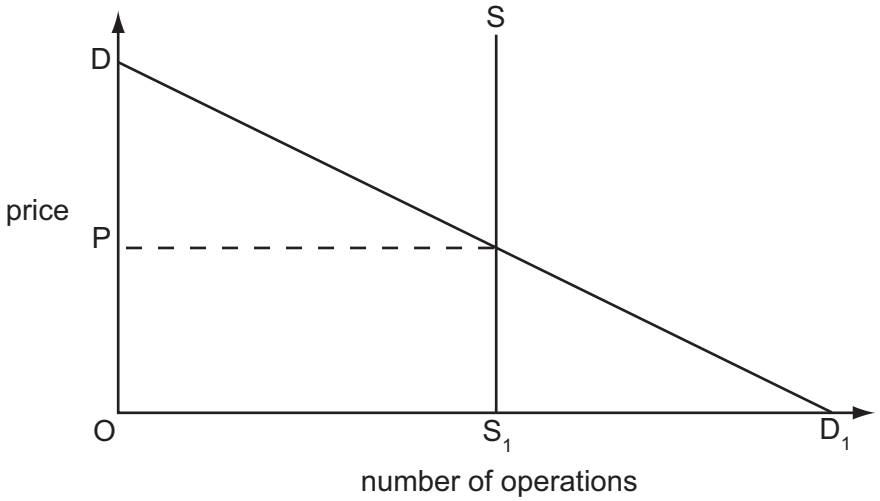
10 In 2003 the outbreak in Asia of the SARS virus had a significant effect on the demand for travel to holiday destinations in the region. The response of airlines was to reduce the number of flights to Asian destinations.

The original market equilibrium was at point X.

Which point represents the new equilibrium in the market for travel to Asia?



11 The diagram shows the demand curve, DD_1, and the supply curve, SS_1, for eye operations.



The operations are provided free.

Which statement is true?

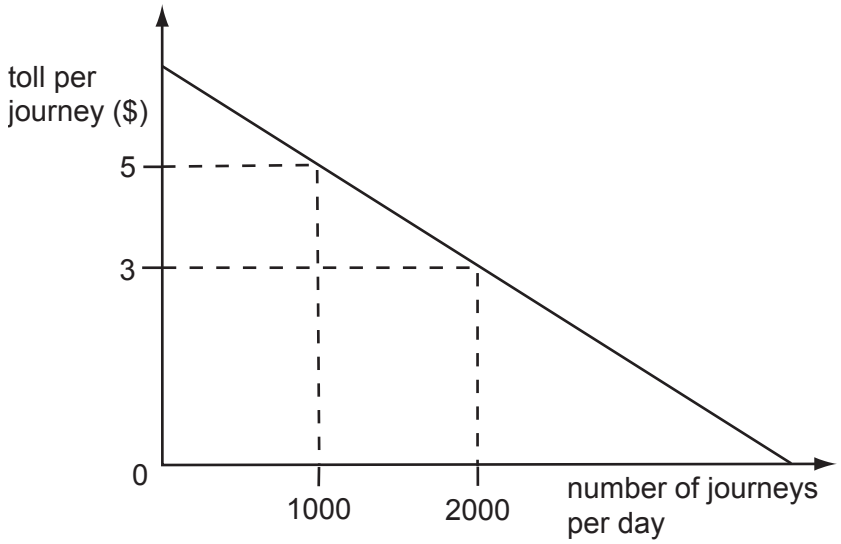
A The equilibrium price is zero.

B The equilibrium price is P.

C The equilibrium price is indeterminate, because the supply curve is vertical.

D Consumer surplus from the operations is ODD_1.

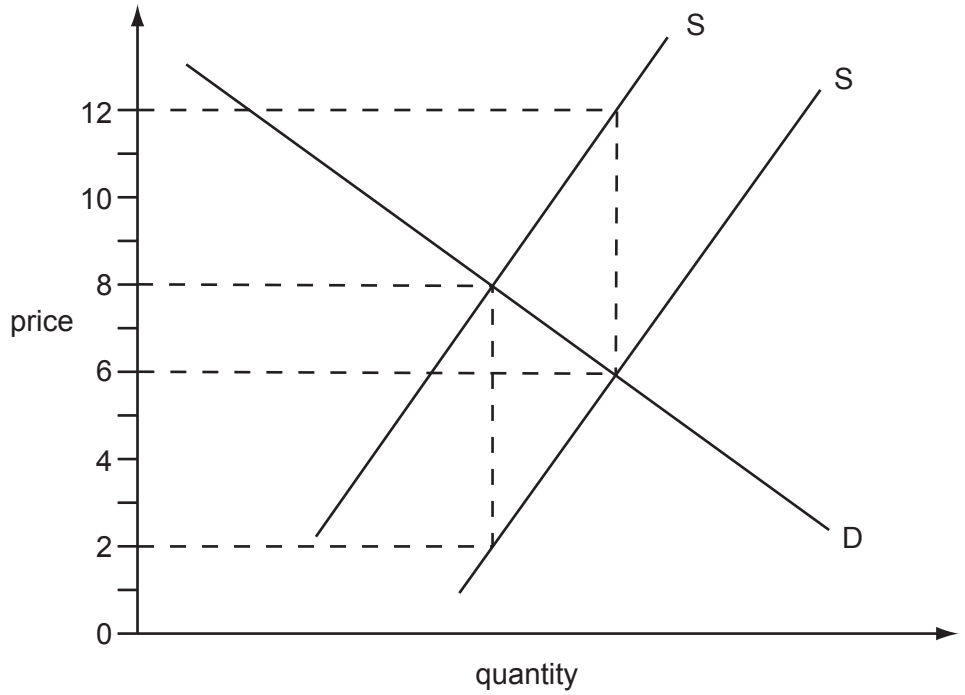
12 The diagram shows a demand curve for journeys on a toll road.



If there is a reduction in the toll from \$5 to \$3, what is the resulting increase in the daily consumer surplus?

A \$1000 **B** \$2000 **C** \$3000 **D** \$4000

13 The diagram shows the demand and supply curves of a commodity before and after a specific tax is removed.



What is the tax per unit of output and what is the price after the removal of the tax?

	tax per unit	price after the removal of the tax
A	6	6
B	6	8
C	4	6
D	4	8

14 In some countries in the last twenty years the amount of freight traffic carried by roads has increased and the amount carried by railways has decreased.

Recently, there has been an attempt to reverse this trend.

What could be the most likely reason for this attempt?

A The external benefits of road transport are higher than the external benefits of rail transport.

B The private benefits of road transport are high.

C The private costs of road transport are low.

D The social costs of road transport are higher than the social costs of rail transport.

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15 When is cost-benefit analysis most likely to be used?

A by a firm when deciding whether to relocate

B by a firm when deciding to purchase new machinery

C by a government when choosing between two road schemes

D by a local authority when deciding its tax rate

16 Which of the following is a public good?

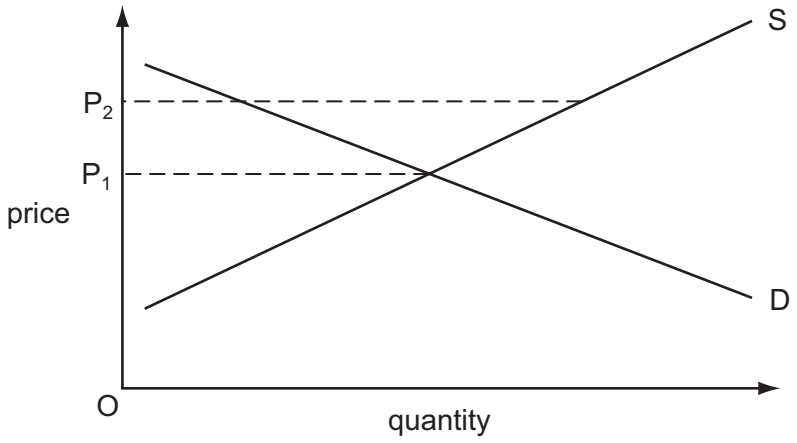
A defence

B education

C electricity supply

D health services

17 The diagram shows the original market clearing price is P_1. The government then imposes a maximum price of P_2 on the industry.



What will result from this?

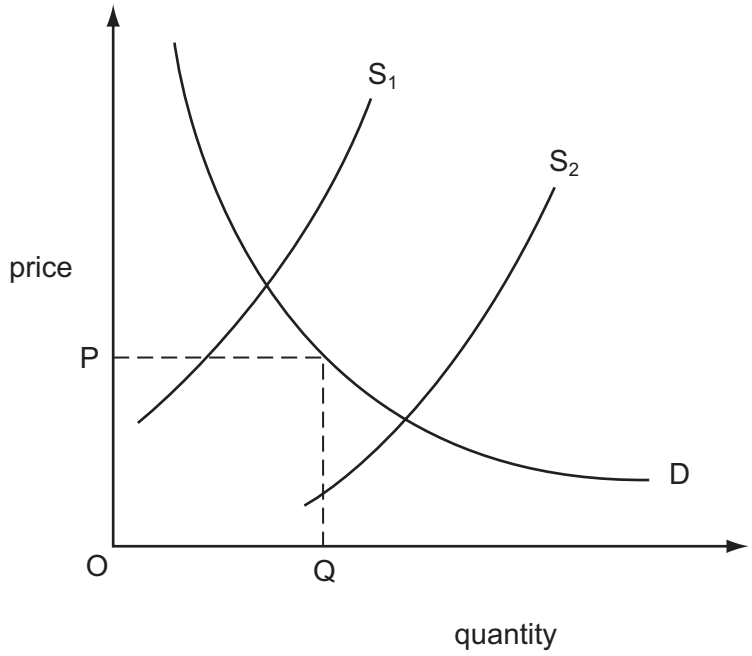
A a higher price and output

B a shortage

C a surplus

D an unchanged price and output

18 The diagram shows the demand curve for an agricultural commodity that has unitary elasticity. S_1 is the supply curve if there is a bad harvest and S_2 is the supply curve if there is a good harvest.



What should the government do in order to stabilise the incomes of farmers?

A allow the price of the commodity to be determined by the market

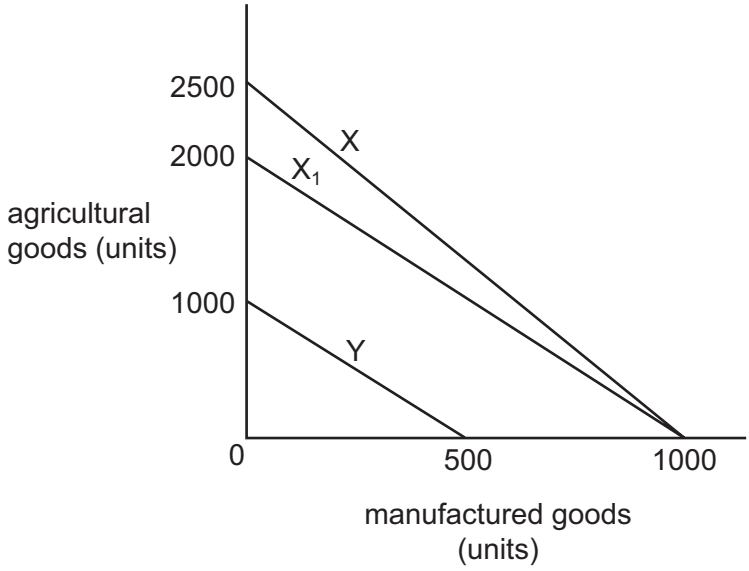
B fix the price paid to farmers at price OP

C introduce a quota on production equal to OQ

D subsidise farmers in bad years and impose a tax on farmers in good years

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19 The diagram represents the production possibility curves of two economies X and Y.



As a result of soil erosion in economy X, the production possibility curve shifts from X to X_1.

According to the law of comparative advantage, what should country Y do following this change?

A cease to trade with country X

B export agricultural goods to country X

C export manufactured goods to country X

D import both agricultural and manufactured goods from country X

20 Which of the following will increase a country's protection against imports?

A an appreciation of its exchange rate

B an increase in its inflation rate

C a reduction in the size of existing import quotas

D a reduction in subsidies to domestic producers

21 When will there be a favourable movement in a country's terms of trade?

A when the prices of its exports fall by more than the prices of its imports

B when the prices of its imports rise by less than the prices of its exports

C when the volume of its exports increases by more than the volume of its imports

D when the volume of its imports increases by more than the volume of its exports

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22 What is an export of services in Jamaica's current account?

A an inflow of funds to Jamaica to buy shares

B earnings from US tourists visiting Jamaica

C earnings of Haitian workers in Jamaica sent to Haiti

D the export of Jamaican coffee

23 The table shows the number of workers and the annual output of an industry.

	year 1	year 2	year 3
Workers in 000s	120	130	100
Output in $m	12.00	14.30	13.00

Which statement is correct?

A Labour productivity increases in year 2 and in year 3.

B Labour productivity increases in year 2 and then declines in year 3.

C Labour productivity is at its highest in year 1.

D Labour productivity is at its lowest in year 3.

24 The table shows the weights used over three years in the UK consumer price index.

	2001	2002	2003
food	116	114	109
motoring expenditure	140	141	146
housing	205	199	203
leisure goods	49	48	48

What can be deduced from the table?

A Housing was a bigger proportion of the average UK household's spending in 2003 than in 2002.

B The average UK household ate less in 2003 than in 2001.

C The average UK household spent more on motoring in 2003 than in 2001.

D The price of leisure goods remained unchanged between 2002 and 2003.

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25 The data given below refers to money supply and prices in the years 2001 and 2004 in four countries **A**, **B**, **C** and **D**.

Between 2001 and 2004, in which country was the rate of inflation the highest?

	2001		2004	
	money supply ($ million)	price index (2000 = 100)	money supply ($ million)	price index (2000 = 100)
A	69	104	78	153
B	65	112	120	247
C	70	101	213	157
D	172	105	360	210

26 A government announces that it has achieved its target of 2.5 % inflation per annum and that it expects to maintain it.

How might such an announcement reduce inflationary pressure?

A by encouraging the government to reduce its spending

B by putting downward pressure on the country's exchange rate

C by putting pressure on the central bank to reduce interest rates

D by reducing workers' expectations of future inflation

27 A Japanese company builds a factory in the UK to supply both the UK market and the market in the rest of Europe.

What is likely to be the long-run impact on the UK's balance of trade in goods and on its current balance?

	balance of trade in goods	current balance
A	worsen	uncertain
B	worsen	improve
C	improve	uncertain
D	improve	improve

28 Why is a balance of payments deficit a potential problem for an economy with a fixed exchange rate?

A Domestic money supply will increase.

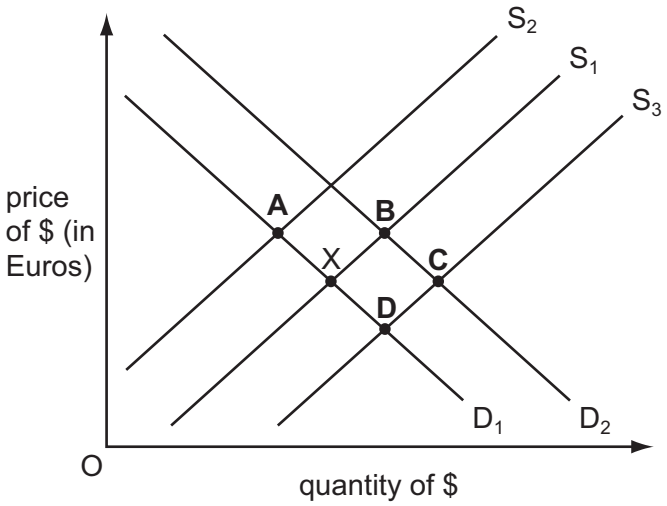
B Rival producers may react with trade protection measures.

C The economy's foreign exchange reserves may run down.

D The economy's short-run standard of living will be reduced.

29 In the diagram the foreign exchange market is initially in equilibrium at X.

What could be the new equilibrium position after an increase in demand from US residents for holidays in Europe?



30 Which policy would be most likely to reduce a balance of payments current account deficit?

A reducing income tax rates

B reducing subsidies to domestic industries

C reducing the external value of the currency

D reducing the level of tariffs

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